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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION  
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IN THE MATTER OF THE APPLICATION  
OF ARIZONA WATER COMPANY, AN  
ARIZONA CORPORATION, FOR  
ADJUSTMENTS TO ITS RATES AND  
CHARGES FOR UTILITY SERVICE  
FURNISHED BY ITS EASTERN GROUP  
AND FOR CERTAIN RELATED  
APPROVAL.

Docket No. W-01445A-02-0619

Arizona Corporation Commission

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REPLY BRIEF OF THE  
RESIDENTIAL UTILITY CONSUMER OFFICE

INTRODUCTION

The Residential Utility Consumer Office ("RUCO") replies to Arizona Water Company ("AWC" or "Company") and the Arizona Corporation Commission Staff's ("Staff") Post Hearing Brief as follows. In this Brief, RUCO only replies to certain arguments, as set forth below, which the Company and/or Staff raised in their Opening Briefs. RUCO does not waive any other argument and/or recommendations that RUCO made in its Opening Brief (See Conclusion).

THE REVENUE REQUIREMENT

The Company's mischaracterization of the matching principle and its purpose should be dismissed. It should come as no surprise that the Company suggests that the Commission give little deference to the "so-called" matching principle. After all, the failure

1 to consider the matching principle would allow the Company to do exactly what it did in this  
2 case-mismatch the rate case elements in a manner which maximizes its revenue  
3 requirement.

4 The matching principle provides that all the elements of the ratemaking model-  
5 revenues, expenses, and investment levels - should be stated at the same point in time.  
6 By matching the rate case elements at the same point in time, the Commission is able to  
7 ascertain the most accurate revenue requirement for the Company. It is the matching  
8 principle which provides the justification for using the Company's historical test year as the  
9 basis to determine the Company's revenue requirement. The use of the historical test year  
10 allows the Commission to analyze rate case elements during a specific point in time.

11 The historical test year, like the matching principle, is one of the most fundamental  
12 concepts of ratemaking in Arizona. R-3 at 9. RUCO, with few exceptions, has consistently  
13 recommended that the Commission consider only the historical test year when setting  
14 rates<sup>1</sup>. RUCO maintains the same position in this case; however, RUCO is willing to  
15 consider post-test year adjustments given the unique circumstances in this case and the  
16 Commission's recent Decisions allowing certain post-test year adjustments.

17 What makes the circumstances unique here is the timing of this case. Unlike the  
18 situation in the Company's Northern Group proceeding, the timing of this case has allowed  
19 RUCO to match all the actual post-test year operating elements (i.e. operating revenues,  
20 operating expenses and rate base components) to the actual revenue- neutral post-test  
21 year plant for which the Company is seeking recovery. Id. The Company takes issue with  
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23 <sup>1</sup> The Company's assertion that in this case RUCO rejects the historical test year in favor of a projected test  
24 year is simply wrong. Company's Brief at 9. RUCO has not abandoned and/or changed its position  
regarding the use and importance of the historical test year principle in this case. R-3 at 16.

1 the use of actual post-test year figures for expenses and revenues, claiming that the  
2 figures are "...raw data that has not been analyzed and adjusted by any party as it would  
3 and should be in a rate case." Company's Brief at 16. The Company claims that its data  
4 is not "speculative", but is test year data with pro-forma adjustments to annualize and  
5 normalize known and measurable changes. Id. at 15 -16.

6 The Company is confused about what an estimated figure represents and what an  
7 actual figure represents. By definition, to "estimate" means to calculate approximately (the  
8 amount, extent, magnitude, position or value of something). The American Heritage  
9 Dictionary of the English Language, Fourth Edition, Houghton Mifflin Company (2000).  
10 The Company admits that it started with test year data and made pro-forma adjustments  
11 for annualization and known and measurable changes. Company's Brief at 15-16. In  
12 other words, the Company's calculations approximate the actual amount. Comparing the  
13 significant differences between the Company's estimated revenues and expenses, and the  
14 Company's actual revenues and expenses is further evidence that the Company's  
15 calculations were approximations. See R-9.

16 It is not coincidence that the Company's use of estimates results in a significantly  
17 lower amount of 2002 total operating revenues (\$14,653,118) when compared to the  
18 actual 2002 total operating revenues (\$16,866,589). R-9. The Company's 2002 estimated  
19 total operating expenses (\$12,684,083) are also lower than 2002 actual operating  
20 expenses (\$13,858,937). R-9. Here, where the use of estimates provides a significant  
21 financial advantage to the Company, the Company tries to confuse the issue by  
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1 suggesting that the figures are not estimates. The Commission should not be confused  
2 and should use the actual 2002 figures<sup>2</sup>.

3 **[BEGIN CONFIDENTIAL]**

24 <sup>2</sup> It is interesting to note that the Company makes a point out of the fact that it is seeking recovery of rate  
case expense based on the "actual expenses".

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2 [END CONFIDENTIAL]

3 **CONSOLIDATION**

4 The Company continues to request rate consolidation. In this case, the Company  
5 is requesting that the Apache Junction and Superior systems should be consolidated. In  
6 support of its argument, the Company cites a litany of cases from other jurisdictions where  
7 the Public Utility Commission has allowed consolidation. Company's Brief at 49-51.  
8 RUCO will not distinguish any of these cases nor cite cases where commissions in other  
9 jurisdictions have not supported consolidation. To do so would be counter-productive. No  
10 party disputes that the issue of consolidation is within the Commission's discretion.

11 The Commission has made it clear that it does not support consolidation. In the  
12 Company's Northern Group case, the Commission stated that maintaining the individual  
13 identity of each of the systems for ratemaking purposes is consistent with its directive in  
14 previous decisions to preserve the individual system data and rates. Decision No. 66400  
15 at 12-13.

16 Consolidation has no effect on the Company's bottom line. The Company does not  
17 benefit financially from consolidation. It is difficult to believe that the Company's sole  
18 motivation for maintaining its position that consolidation is necessary is a benefit to  
19 ratepayers. If in fact the Company's sole motivation is to benefit ratepayers, consolidation  
20 does not achieve the Company's goal.  
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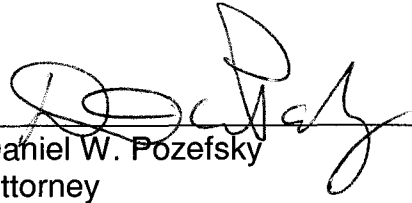
1 Whenever the Commission moves away from cost of service ratemaking, some  
2 group of ratepayers will be hurt. Here, the effect of consolidation would be the ratepayers  
3 of Apache Junction subsidizing the ratepayers of Superior. The Apache Junction  
4 ratepayers will be paying more for their water than it costs in order to subsidize Superior's  
5 higher costs. Under the Company's proposal, the ratepayers of Apache Junction will not  
6 benefit from consolidation.

7 **CONCLUSION**

8 RUCO recommends that the Commission authorize a rate increase that is based on  
9 rate case elements representing the Company's actual and not estimated figures. [BEGIN  
10 **CONFIDENTIAL**]

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14 [END CONFIDENTIAL] The Commission should not approve  
15 consolidation of the Apache Junction and Superior systems. The Commission should  
16 approve the Company's original proposed rate case expense; a ten year amortization of  
17 the deferred CAP expenses; RUCO's recommended level of working capital; and RUCO's  
18 recommended 8.68 percent rate of return.

19 RESPECTFULLY SUBMITTED this 10<sup>th</sup> day of November, 2003.

20  
21   
22 Daniel W. Pozefsky  
23 Attorney  
24



1 AN ORIGINAL AND THIRTEEN COPIES  
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